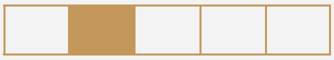
Ralton Dividend Builder

Portfolio Report | October 2021

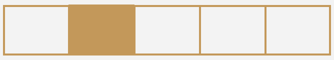
Key facts

Income versus growth target



Income Growth

Market cap bias



Large Small

Investment strategy

A portfolio of ASX-listed equities designed to provide attractive tax-effective income

Investment objective

Outperform index by over 3% p.a.

Benchmark index

S&P/ASX 300 Accumulation Index

Portfolio Manager

Will Riggall

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

25-35

External ratings

Zenith "Approved"

Key platforms

HUB24, NetWealth, Praemium, OneVue, Powerwrap, Linear, Xplore, Wealth02

Stock spotlight | Worley (WOR) +9.18%

COP26 has been a lightening rod for investors to assess their portfolios through the lense of the new economy. The drive to net zero is estimated to deliver between $1-2trillion pa in capital investment. As a leader in the design and delivery of complex capital projects across the energy, chemical and infrastructure space, the company is uniquely position to benefit as companies seek to re-position to a de-carbonised economy. New economy projects are not only large, but according to WOR are being delivered at a higher EBIT margin. With consensus having factored in limited benefit in forecast earnings, the current low PE provides a significant opportunity for material gains while investing in a thematic set to shape investment markets for the next decade.

Performance (%, returns greater than one year are p.a.)[1]

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	**-1.05%**	**0.06%**	**27.24%**	**7.17%**	**8.45%**	**10.92%**	**7.60%**
Income	*0.05%*	*1.93%*	*4.97%*	*4.79%*	*4.77%*	*4.85%*	*4.96%*
Growth	*-1.09%*	*-1.87%*	*22.27%*	*2.38%*	*3.69%*	*6.08%*	*2.64%*
Index[2]	**0.10%**	**0.77%**	**28.57%**	**12.26%**	**11.03%**	**10.01%**	**6.36%**

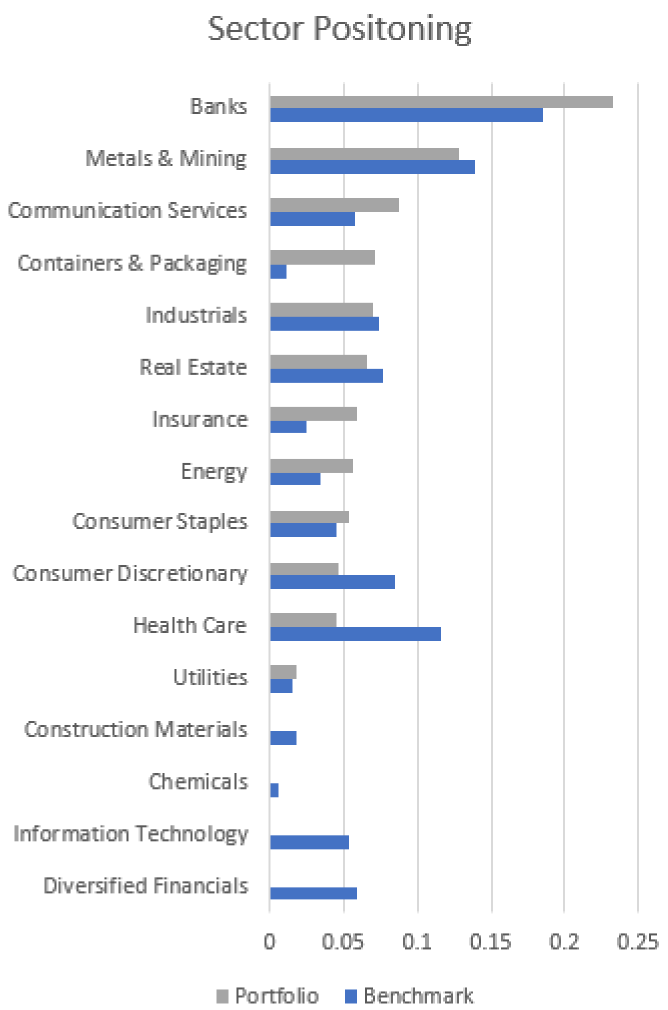
[1]Performance is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. Total returns assume the reinvestment of all portfolio income.
[2]Index means the S&P/ASX 300 Accumulation Index.

Portfolio Performance

The Ralton Dividend Builder portfolio returned –1.05% for the month, taking 1 year performance to 27.24% as yield names underperformed with bonds selling off. Stubbornly high inflation rates finally impacted bond markets with 10 year yield surging, stalling the share markets march higher. For the portfolio focus remains on a company's ability to pass through inflation and positioning away from valuation extremes.

Contributors	Comment
Perenti Global Limited (PRN) +27.35%	At the beginning of October PRN hosted its AGM confirming its positive outlook. Strong commodity prices, including the resurgent gold price is supporting capex spend, with labor shortages being actively managed.
Worley Limited (WOR) +9.18%	WOR bounced back in October as investors focused on the company's strengthening outlook driven by increased economic activity as well as the groups increasing exposure to spend to deliver a lower carbon economy.
Super Retail Group Limited (SUL) +5.90%	At their AGM SUL gave a positive trading update showing sales resilience despite NSW/VIC lockdowns. Gross margins remain elevated and the company has a strong inventory position to take advantage of the trend to domestic travel.

Detractors	Comment
Smart Group Corporation Ltd (SIQ) -15.58%	SIQ fell after the TPG and Potentia Capital revised their bid from $10.35 to $9.25 which the board rejected. We expected continued interest due strong cashflow attributes and upside as new car sales return to normal levels.
Macquarie Group Limited (MQG) +8.70%	Upgraded guidance for first half earnings, supported by commodities and global markets activity and asset realisations. MQG is well placed to benefit from the green energy transition with outlook reflected in valuation.
Aurizon Holdings Ltd. (AZJ) -11.08%	Aurizon has been performing well with coal prices and demand for utility earnings driving investor sentiment. However the acquisition of OneRail brings coal and bulk exposure, while intent on divesting coal it does increase risk.



Top 10 holdings (alphabetical)

Amcor PLC
BHP Group Ltd
Coles Group Ltd.
Commonwealth Bank of Australia
National Australia Bank Limited
Nine Entertainment
QBE Insurance Group Limited
Sonic Healthcare Limited
Telstra Corporation Limited
Westpac Banking Corporation

Portfolio metrics*

	Ralton	XKOAI^
# of Securities	27	200
Market Capitalization	57,446.7	66,035.9
Active Share	66.2	--
Tracking Error	4.59	--
Beta	0.95	1.00
Est 3-5 Yr EPS Growth	8.0	9.9
ROE	10.7	13.7
Div% NTM	4.85	3.47
P/E using FY2 Est	13.5	17.6
Price/Cash Flow	6.5	10.6

*Source: FactSet
^XKOAI means the S&P/ASX 300 Accumulation Index. The comparison with the S&P/ASX 300 Accumulation Index is for comparative purposes only. Index returns do not allow for transaction, management, operational or tax costs. An index is not managed and investors cannot invest directly an in index

Portfolio Activity

BUY	Yield %	Comment
PGH	4.40%	Post a challenging period, we believe the business is now well positioned to see earnings recovery, and multiple expansion. We are attracted to the emerging strategy to be a leader in clean recycling, with the opportunity to build strong competitive advantage from a now solid base business. We expect continued earnings improvement and PE expansion to drive strong performance over a multiple year period.
RIO	10.31%	Rio Tinto has been sold off aggressively due to China growth concerns impacting steel demand. While we believe China will slow from its recent high rates, RIO continues to deliver strong EBIT from its low cost Iron Ore operations with its leverage to Copper underestimate in its currently depressed share price.
SELL		
DOW	4.35%	The investment thesis in Downer was predicated on backing management to reduce the capital intensity through sale of non core operations and pivot towards a less volatile services business. Management, under Grant Fenn have successfully executed on the transition the opportunity and the share price has reacted accordingly, closing the value opportunity.

What's got us thinking

All the talk has been about inflation, with tradition correlation of higher yields driving preference for cyclical stocks asyields and inflation are more often flagging a pick up in growth. However as the October month continued the strong lead in "value" stocks moved rapidly to "growth" as technology and healthcare sectors took the lead. So what gives? Banks reacted to inflation signals by increasing 25 years fixed rates by up to 50bps, however it was what the RBA and other central banks statements that shines the light on this dichotomy. While inflation looksto be stickier and more indicative of structural higher prices, the central banks refusal to flag higher future rates, resulting in an increase in short rates with long term rates rising far less. A traditional flattening of the yield curve, supporting the value of future growth and indicating some economic caution is warranted. We remain of the view that spot COVID-19 growth will continue to accelerate, supported by continued forecast EPS increases. We stay overweight cyclical growth and cautious on high valuations and expect positioning to deliver strong alpha over the coming quarter.